

PCA REAL ESTATE ADVISORS, INC.

150 Spear Street, Suite 1850, San Francisco, California 94105
415-422-0700 Tel. 415-422-0701 Fax

May 22, 2008

Members of the Investment Committee
CalPERS
400 Q Suite E 4800
PO Box 95812 - 2749
Sacramento, CA 95814

Re: Real Estate – Revision of Policy for Global Equity Real Estate

Dear Members of the Investment Committee:

We have worked with the Real Estate Staff on the on-going project to review and revise the investment strategy and overall benchmark for CalPERS Global Real Estate Equity portfolio. The result of this process was a series of recommendations made to the Investment Committee on September 10, 2007 as part of the Strategic Plan for the real estate program. The Strategic Plan was approved by the Investment Committee. One of the recommendations contained in the Strategic Plan was to revise the overall Global Equity Real Estate portfolio benchmark.

The prior benchmark for the Global Equity Real Estate portfolio was to exceed, on a gross of fees basis, the NCREIF¹ Property Index (“NPI”). The recommended revision takes into account the increased level of risk of the strategies that have been adopted by the Investment Committee over time. It also takes into account the fact that a material component of the portfolio is invested in global publicly traded real estate securities.

The recommended change is to adopt a blended benchmark consisting of both the NPI and the FTSE EPRA NAREIT index². The recommended benchmark is:

90% weighted to NPI plus 200 basis points; and
10% weighted to FTSE EPRA NAREIT Global Total Return Real Estate Index

The performance of the portfolio will be expected to exceed this benchmark on a gross of fees basis. The 200 basis point premium added to the NPI reflects the increased expected return from (i) the leverage in the Core portfolio; and (ii) the added risk associated with the value added and opportunistic investment strategies. It also reflects the recommended modifications to the portfolio structure as follows:

Strategy	Benchmark	Weight
Core	NPI	33.3%
Value-Add	NPI + 200 bps	33.3%
Opportunistic	NPI + 400 bps	33.3%
Blended Total	NPI + 200	100%

¹ National Council of Real Estate Investment Fiduciaries (“NCREIF”).

² Financial Time Stock Exchange (“FTSE”), European Public Real Estate Association (“EPRA”) and National Association of Real Estate Investment Trusts (“NAREIT”).

PCA REAL ESTATE ADVISORS, INC.

150 Spear Street, Suite 1850, San Francisco, California 94105
415-422-0700 Tel. 415-422-0701 Fax

While the ideal benchmark for the private component of the Global Equity Real Estate portfolio would be a global equivalent of the NPI, such a benchmark does not yet exist. IPD (a private firm in the UK) is attempting to develop such a global benchmark, but by our estimates it is at least five years away in terms of being a reliable benchmark. We will continue to monitor the development of this benchmark.

This revised benchmark will be incorporated into the Equity Real Estate Policy as outlined in the Staff's blacklined version of the policy document.

We concur with the Staff's recommendation to revise the benchmark pursuant to the guidelines above and the revisions to the Equity Real Estate Policy.

Please call, if you have any questions regarding this recommendation. We look forward to discussing the revisions at the next meeting of the Investment Committee.

Very truly yours,



Nori Gerardo Lietz

Cc: Anne Stausbol
Ted Eliopoulos
Randy Pottle
Pam Alsterlind
Aniq Kassam